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**DAILY EDITORIAL
ANALYSIS**

TOPIC

**REIMAGINING FCI: FROM OPEN-
ENDED PROCUREMENT TO SMART
BUFFER MANAGEMENT**

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REIMAGINING FCI: FROM OPEN-ENDED PROCUREMENT TO SMART BUFFER MANAGEMENT

Context

- After the six decades of establishment of the **Food Corporation of India (FCI)**, India's agricultural landscape has transformed, from scarcity to surplus, while food security remains non-negotiable, **calling for a strategic recalibration of FCI's role** to ensure **fiscal prudence, efficiency, and sustainability**.

About the Food Corporation of India (FCI)

- It was **established in 1965** under the **Food Corporations Act, 1964**, under the backdrop of **Post-Green Revolution food shortages** and **dependence on PL-480 imports (PL-480 was a "Food for Peace" program initiated by the US in 1954)**.
 - ♦ It aims to ensure national food security through state-led grain management.
- It played a pivotal role in consolidating India's food self-sufficiency during the Green Revolution era.

Core Functions of FCI

- **Procurement at Minimum Support Price (MSP):** Purchases wheat and rice primarily from Punjab, Haryana, MP, Telangana, and Andhra Pradesh.
 - ♦ Protects farmers from price crashes, and ensures remunerative returns.
- **Buffer Stock Maintenance:** Stocks maintained as per quarterly norms. Serves three purposes:
 - ♦ NFSA requirements;
 - ♦ Strategic reserves;
 - ♦ Price stabilisation;
- **Public Distribution System (PDS):** Supplies subsidised food grains to states.
 - ♦ Implements the **National Food Security Act (NFSA), 2013**, covering ~67% of population.

Why Reform is Necessary To FCI?

- **Surplus Stocks Beyond Norms:** Buffer stocks are meant to act as **economic insurance**, procured during surplus to prevent price crashes and released during shortages to curb inflation.
 - ♦ **Buffer norms (July 1, 2025):** 411.20 lakh tonnes
 - ♦ **Actual stock (Rice + Wheat):** 736.61 lakh tonnes
 - ♦ Such persistent overstocking leads to high carrying and storage costs, quality deterioration and wastage, and logistical inefficiencies.
- **Mounting Fiscal Burden:** In 2023–24, **total FCI expenditure** was around ₹1,87,834 crore, and **per tonne cost** was around ₹22,347.62.
 - ♦ The **Comptroller and Auditor General (CAG)** flagged avoidable storage and supervision costs in select states.
 - ♦ When compared with **modern silo operators** (≈₹534 per tonne for storage services), traditional methods appear costly and inefficient.
 - ♦ It underscores the need for **structural reforms**, not incremental adjustments.
- Other concerns like political economy concerns in surplus states; resistance from procurement-dependent regions, and consensus-building.
 - ♦ Reform needs to therefore be **consultative, phased, and data-driven**.

Case for a Policy Pivot

- **Shift from Open-Ended MSP Procurement:** Currently, procurement is often open-ended, especially in Punjab and Haryana. The reform proposal suggests:
 - ♦ **Delinking procurement volumes from storage capacity;**

- ◆ Aligning procurement strictly with **buffer stock norms**;
- ◆ Ensuring procurement responds to price signals rather than default purchases;
 - It does not dismantle MSP but rationalises its operationalisation.
- **Modernising Buffer Stock Management:** It includes scientific storage, reduced grain losses, lower fumigation and re-bagging costs, rail-linked bulk handling, and improved quality preservation.
 - ◆ PPP-based silo capacity is projected to rise significantly across multiple locations, creating performance-linked incentives.
- **Rule-Based OMSS for Price Stabilisation:** Price stabilisation should move from discretionary to **rules-based mechanisms**:
 - ◆ Automatic OMSS triggers when stocks exceed buffer norms;
 - ◆ Reserve prices linked to regional wholesale price indices;
 - ◆ Accounting for transport costs;
 - Such predictability reduces market distortion and improves fiscal transparency.
- **Fiscal and Structural Gains:** Nearly **28% of subsidised food grains** reportedly face leakages or inefficiencies. These savings can be redirected toward:
 - ◆ Direct Benefit Transfers (DBT);
 - ◆ Agricultural extension services;
 - ◆ Diversification into pulses and oilseeds;
 - ◆ Infrastructure upgrades;
- **Integrating Broader Reforms:**
 - ◆ **MSP Reform:** Gradual shift toward income support mechanisms; and encouragement of crop diversification.
 - ◆ **Fertilizer Subsidy Reform:** Expansion of **Direct Benefit Transfers (DBT)**, and rational input use.
 - ◆ **Export Ambitions:** Efficient stock management and quality preservation can support India's target of **\$100 billion in agricultural exports by 2030**.
- **Impact on Farmers and Cropping Patterns:** A predictable and disciplined procurement policy reduces artificial cereal overproduction; encourages diversification away from water-intensive crops; promotes pulses and oilseeds (critical for import substitution); and improves sustainability in states facing groundwater depletion.
- **Safeguarding Food Security:** Reform does not undermine food security. As long as **NFSA buffer norms are maintained**, the system remains secure.
 - ◆ The reform objective is **efficiency without dilution of welfare commitments**.

Conclusion

- The Food Corporation of India (FCI) was built to fight hunger. Today, it must evolve to fight inefficiency. India has moved from food scarcity to food surplus. The next phase demands:
 - ◆ Smart buffer management;
 - ◆ Modern storage infrastructure;
 - ◆ Rule-based price stabilisation;
 - ◆ Fiscal discipline; and
 - ◆ Crop diversification.
- Reforming FCI is about **strengthening it through efficiency, sustainability, and accountability**.

Source: BL

Daily Mains Practice Question

[Q] Examine the need to shift from open-ended MSP procurement to a smart, rule-based buffer stock management system. Discuss the potential benefits and challenges of such reforms.